

Message Text

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ACTION SS-30

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 0000

INFO AMEMBASSY JAKARTA

AMEMBASSY CANBERRA

C O N F I D E N T I A L TOKYO 2839

EXDIS

E.O. 11652 GDS

TAGS: ENRG, JA, ID

REF: A) STATE 041011 B) JAKARTA 2632

SUMMARY: EMBASSY NOTES DEPARTMENT'S REQUEST THAT WE SOUND OUT JAPANESE SOURCES ON (A) POSSIBLE IN PRICE JAPANESE HAVE AGREED TO PAY FOR INDONESIAN LNG AND (B) DIRECT CONTACTS BETWEEN JAPANESE FIRMS AND PACIFIC LIGHTING, AS WELL AS EMBASSY JAKARTA'S OBJECTION TO THIS REQUEST. ALTHOUGH PACIFIC LIGHTING POSITION APPEARS TO BE SHAKEY IN VIEW OF ENOURMOUS GAP BETWEEN ITS OFFER AND THAT OF JAPANESE FIRMS, WE BELEIVE IT WOULD ALSO DEMONSTRATE TO JAPANESE THAT WE CONTINUE TO BE CONCERNED AT UNBRIDLED PRICE COMPETITION FOR RESOURCES. HOWEVER, WE ALSO RECOGNIZE VALIDITY OF EMBASSY JAKARTA'S POSITION AND THUS PLAN NO ACTION PENDING FURTHER INSTRUCTIONS. ACTION REQUESTED: PLEASE ADVISE. END SUMMARY.

1. INDONESIAN LNG SITUATION DESCRIBED REFTTEL (A) BASICALLY CORRESPONDS WITH WHAT BOTH EMBASSIES JAKARTA AND TOKYO HAVE REPORTED BEFORE (SEE TOKYO 16306, TOKYO 2096 PARA 3, AND JAKARTA 14933) I.E. THAT THERE IS NOW AN ENORMOUS GAP BETWEEN F.O.B. PRICES JAPANESE AND PACIFIC LIGHTING HAVE AGREED TO PAY FOR INDONESIAN LNG, AND THAT PACIFIC LIGHTING WILL COME UNDER HEAVY PRESSURE TO IMPROVE IRS OFFER SUBSTANTIALY. ACCORDING OUR INFORMATION, JAPANESE HAVE ACCEPETED \$1.68 RPT \$1.68 PER MMBTU PRICE (FOB) CONFIDENTIAL

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AND PACIFIC LIGHTING THIS FAR HAS ONLY ACCEPTED \$0.63 PER MMBTU (F.O.B.). GIVEN THIS GAP, IF PACIFIC LIGHTING UNWILLING TO GO BEYOND TERMS IN REF (A) PARA. 3, WE WOULD REGARD ITS POSITION IS VERY SHAKEY ONE.

2. OUR GENERAL IMPRESSION RE JAPAN-INDONESIAN NEGOTIATIONS ON LNG CONTRACT IS THAT WHILE JAPANESE ARE NOT PLEASED TO BE PAYING VERY HIGH PRICES FOR LNG, THEY ARE MOST ANXIOUS TO SECURE GAS AND APPEAR TO REGARD PRICE AS INEVITABLE. WE HAVE HEARD NO TALK OF PRICE ROLLBACK. IN VIEW OF ABOVE AND DEPARTMENT'S ACCOUNT OF PACIFIC LIGHTING'S POSITION ON PRICE, RISK OF PACIFIC LIGHTING BEING SQUEEZED OUT OF DEAL ENTIRELY SEEMS TO US TO BE REAL AT THIS POINT.

3. ALTHOUGH PACIFIC LIGHTING'S SITUATION MAY WELL HAVE GONE BEYOND ANY ASSISTANCE EMBASSY CAN RENDER, IT CONCEIVABLE THAT WE MIGHT FIND AFTER DISCUSSIONS WITH JAPANESE THAT THEY ARE RECEPTIVE TO IDEA OF MODIFYING PRICE STRUCTURE DOWNWARD. WE THIS BELIEVE AN APPROACH TO JAPANESE ALONG LINES REF (A) WOULD BE WORTHWHILE. EMBASSY ALSO BELIEVES SUCH AN APPROACH WOULD REINFORCE OUR CONCERN OVER UNBRIDLED PRICE COMPETITION FOR SCARCE RESOURCES AND DETRIMENTAL EFFECT JAPANESE PRICE MAY HAVE ON FUTURE TRANSACTIONS IN WORLD LNG MARKET.

4. ON OTHER HAND,, EMBASSY WELL UNDERSTANDS LIKELY DISPLEASURE OF INDONESIANS IF THEY LEARN U.S. IS MAKING EFFORT TO GET JAPAN TO RENEGOTIATE AGREEMENT IN ORDER TO OBTAIN LOWER PRICE FOR ITSELF. EMBASSY IS IN NO POSITION TO MAKE JUDGEMENT ON THESE TWO CONFLICTING OBJECTIVES, I.E. A) AVOIDING UNBRIDLED COMPETITION FOR SCARCE RESOURCES AND ATTEMPTING TO ESTABLISH A LOWER MORE REALISTIC PRICE FOR LNG; OR B) AVOIDING POSSIBLE DISPLEASURE OF INDONESIANS AND CONSEQUENT EFFECT ON U.S. INDONESIAN RELATIONS.

5. UNDER CIRCUMSTANCES, EMBASSY PLANS TO TAKE ACTION ON REF (A) PENDING FURTHER INSTRUCTIONS. PLEASE ADVISE.
SHOESMITH

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<< END OF DOCUMENT >>

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